Sensient Technologies Corporation

Moderator: Kim Chase
April 26, 2017
11:00 a.m. EST

Operator: This is conference # 5952001.

Operator: Good morning, everyone. Welcome to the Sensient Technologies Corporation 2017 First Quarter Conference Call. Today's call is being recorded.

At this time, for opening remarks, I would like to turn the call over to Mr. Steve Rolfs. Please go ahead sir.

Stephen J. Rolfs: Good morning. I'm Steve Rolfs, Senior Vice President and Chief Financial Officer of Sensient Technologies Corporation. I would like to welcome all of you to Sensient's conference call to discuss 2017 first quarter financial results. I'm joined this morning by Paul Manning, Sensient's Chairman, President and Chief Executive Officer. Yesterday, we released our 2017 first quarter financial results. A copy of the release is now available on our website at sensient.com.

During our call today, we will reference certain non-GAAP financial measures, which we believe provide investors with additional information to evaluate the company's performance and improve the comparability of results between periods.

These non-GAAP financial measures remove the impact of restructuring costs, currency movements and other costs, as noted in the company's filings. Non-GAAP financial results should not be considered in isolation from, or as a substitute for, financial information calculated in accordance with GAAP.

A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is available on the Investor Information section of our website at sensient.com and in our press release. We encourage investors to review these reconciliations in connection with the comments we make this morning.

I would also like to remind everyone that comments made this morning, including responses to your questions, may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995.

Our statements may be affected by certain factors, including risks and uncertainties, which are discussed in detail in the company's filings with the Securities and Exchange Commission. We urge you to read Sensient's filings for a description of these factors. Please bear these factors in mind when you analyze our comments today.

Now we'll hear from Paul Manning.

Paul Manning: Thanks, Steve. Good morning. Sensient reported adjusted earnings per share of 82 cents in the quarter, an increase of nine percent from last year's first quarter result of 75 cents.

Foreign currency reduced adjusted EPS by one cent in the first quarter, and in local currency, adjusted EPS grew 11 percent.

Revenue was up one percent in local currency with Color reporting high single-digit growth and Asia Pacific reporting mid-single-digit growth. Adjusted operating income increased by 10 percent in local currency, driven by strong results from both Colors and Flavors & Fragrances.

Colors operating income was up 9 percent in local currency on strong performances across the group. Flavors & Fragrances operating income was up more than 5 percent in local currency, with most of the group's businesses showing solid growth. Flavors & Fragrances operating margin was up 150 basis points over last year's first quarter results and Sensient's operating margin increased 130 basis points to 16.2 percent.

Foreign currency translation reduced both revenue and adjusted operating income by approximately one percent in the quarter. Color had another very strong quarter with revenue and operating income increasing seven percent and nine percent, respectively, in local currency.

The Cosmetics business continues to perform well, reporting double-digit growth in local currency for both revenue and operating income in the quarter. The Food Color's business generates strong profit growth due in part to double-digit sales growth of natural colors in North America.

Both the Pharma and Inks businesses also improved solidly over last year's results. The group's operating margin remained solid, improving to 22.5 percent in the first quarter. Our Cosmetics business continues to see strong demand from makeup, lipstick and other personal care products.

Cosmetics has a strong innovation program which allows us to develop solutions for a wide range of applications, including makeup, skin, nail and hair care and hair colors. Our success in Cosmetics was broad based, with growth in every region of the world. In the Food & Beverage markets, we expect to see strong interest in natural colors for some time.

In 2016, approximately 75 percent of all new product launches, both in the U.S. and globally, featured natural colors. Many of the world's largest food companies, including some of the largest food retailers, have announced their intention to use natural colors in their products. We expect these conversions to take place gradually and consistently over the next few years. Thus far, much of the near-term conversion activity has been driven by local and regional manufacturers for private label brands.

Sensient is the market leader for food and beverage colors, and we have developed proprietary technologies that allow our customers to offer natural products without compromising on the appearance or affecting the taste of their product. We are uniquely positioned to lead the conversion to natural colors because of our investments in new technologies and our applications expertise.

Flavors & Fragrances had a very good quarter, reporting local currency operating income growth of 5 percent, with an operating margin of 15.4 percent. The operating margin improved 150 basis points from last year's first quarter, and this is the fourth consecutive quarter in which the group's operating margin increased by at least 100 basis points over the previous year's result.

Revenue was off by approximately 4 percent in local currency, principally related to culling of low margin and nonstrategic projects.

Flavors & Fragrances has made significant progress over the past few years, with many of the group's businesses delivering profit growth and margin improvement.

In the first quarter, most of the group's businesses reported higher profits with several achieving double-digit profit growth. Likewise, we saw operating margin improvement in most of the group's businesses. We were able to deliver these strong results even though we are still in the process of transitioning production out of the last of the facilities to be impacted by restructuring. We incurred additional costs in the first quarter related to the extended transition, and we expect some of these costs to continue into the second quarter.

We completed the sales of one of our European savory ingredient facilities and our European Natural Ingredients business, which primarily sold dehydrated vegetables in the first quarter. These businesses produced products that did not align with our strategy of selling flavors rather than ingredients.

They were dilutive to the group's operating profit margin and each had heavy working capital requirements. These divestitures will eliminate approximately $30 million of revenue on an annual basis, and they represent the last of the significant culling actions that we had discussed with you. As we previously forecasted, most of the revenue impact will occur in 2017.

The Asia Pacific results were off this quarter, primarily due to order timing and product mix. We have been investing in the Asia Pacific region, and we expect to generate strong growth in these markets. Last year, we opened a new

R&D center in Singapore, adding personnel and technical capabilities that allow us to work more closely with customers and to sell more products that align with our strategies in Colors and Flavors.

We are also expanding local production capabilities throughout the region to reduce cost and to shorten lead times.

Overall, the first quarter results of the company were in line with my expectations. Color continued to deliver strong results and Flavors & Fragrances overcame some challenges with production cost and had a very good quarter.

For the year, I still expect Color to deliver high single-digit profit growth and Flavors & Fragrances to deliver mid-to high single-digit profit growth with margin improvement of between 100 and 200 basis points. I also expect Asia Pacific to recover and achieve high single-digit and perhaps double-digit profit growth for the year.

We are maintaining our adjusted EPS guidance for the year. Adjusted EPS growth will approach or exceed 10 percent in local currency terms. We still think the strong dollar will have an impact on adjusted EPS results for the year, and we are maintaining our adjusted EPS range of $3.35 to $3.45.

We're off to a good start for 2017, and I'm very optimistic about the company's future. Steve will now provide you with additional details on the first quarter results.

Stephen J. Rolfs: Thank you, Paul. Sensient reported revenue of $341.4 million in the quarter compared to $342.5 million in the first quarter of last year. Operating income was $24 million in the quarter compared to $47.5 million in last year's first quarter.

The operating income results include restructuring and other costs of $31.3 million in the quarter and $3.3 million in the comparable period last year. Excluding the restructuring and other costs, adjusted operating income was $55.3 million and $50.9 million in the first quarters of 2017 and 2016, respectively.

Foreign currency translation reduced both revenue and adjusted operating income by about 1 percent in the quarter. Diluted earnings per share from continuing operations were 30 cents in the quarter compared to 69 cents in the comparable period last year. Restructuring and other costs reduced earnings per share by 53 cents in this year's first quarter and by 6 cents in last year's first quarter.

Adjusted earnings per share were 82 cents in the quarter and 75 cents in the comparable period last year. Foreign currency translation reduced adjusted EPS by 1 cent per share in the first quarter. In local currency, adjusted earnings per share grew 11 percent.

As Paul mentioned earlier, we completed the sales of one of our savory ingredient facilities and our European Natural Ingredients business in the first quarter. We recognized non-cash losses on both transactions, and these losses account for most of the $31 million that we reported as restructuring and other costs in the quarter.

Cash flow from operations was $37.6 million in the first quarter compared to $46.2 million in last year's comparable period. The first quarter cash flow was reduced by higher incentive payments and a smaller reduction in inventory in our Natural Ingredients business compared to the first quarter of last year.

Capital expenditures were approximately $10 million in the first quarter, and we still expect capital expenditures to be between $60 million and $70 million for the year. We repurchased approximately 155,000 shares during the first quarter.

Our balance sheet remains strong. Adjusted-debt-to-adjusted EBITDA was 2.4 at the end of the quarter. We plan to keep debt levels in line with an investment-grade profile to maintain the flexibility for capital expenditures, dividend payments, share repurchases and acquisitions. We will continue to take a balanced, prudent and long-term approach to our capital allocation strategy, which includes evaluating share repurchases and acquisitions on an opportunistic basis.

Thank you very much for your time this morning. We'll now open the call for your questions.

Operator: Today's question and answer session will be conducted electronically. If you would like to ask a question, please signal us by pressing star-one. We will take as many questions as time permits. Once again, if you would like to ask a question please signal us by pressing star-one. And our first question comes from Mike Sison from KeyBanc.

Michael J. Sison: Paul, when you think about -- I wanted to get a little bit of a cadence for Flavors & Fragrances. Your volumes are down, but as you noted, you did show earnings growth. So clearly, the strategy there is working. And I think you still have a little bit of culling coming, right?

So can you maybe talk about areas in that segment that have shown organic growth? And then maybe just a feel of when you think we turn the corner there on an organic growth basis, recognizing your earnings growth has been -- it's heading in the right direction.

Paul Manning: Sure. So when I go back to the original guidance for the year and what we've communicated, we've talked about flat revenue in Flavors for 2017. The idea there being we would have a -- an impact from culling, which would offset the growth that we would expect to get organically and, therefore, we'd net out at about zero. So that was kind of the concept.

Now as I noted in the lead in here with my opening comments, we did take out the next big part, say, effectively part two of two of culling. The big chunk of that culling took place with the sale of that production site and the sale of that business in Europe. Those two combined would represent about $30 million of annual revenue. So the idea here is that, that would be a big last chunk of culling.

Some of that would bleed into 2018, the first quarter of 2018. I thought we would be able to sell that last facility at the start of the quarter. We were not able to. We were able to sell that at the end of the quarter, at the end of March. And so therefore, a little bit of that culling impact will bleed into Q1 of 2018. So that's just some background pieces.

What we had talked about after 2017, where again we would anticipate net-net flat revenue, we would then expect -- as we get into 2018 and beyond, we would strive internally and our goal and expectation would be mid-single-digit top line growth in Flavors.

And so what could I point to, to the second part of your question, that would demonstrate our ability to actually do that, is that, again, I'll note the businesses that are effectively through restructuring showed very good growth and it was fairly broad based.

Some of these businesses were in Europe, some were in the Americas, some of the traditional flavors types, but we also had a good top line growth in Fragrances. So I see very good growth. I think that, again, the further we get away from restructuring, I think the better we get towards that internal goal of mid-single-digit top line growth.

Michael J. Sison: Right. And then sticking to Flavors. When you think about some of the areas where you've successfully moved from more of an ingredient to a solution, anything -- any particular areas that you can point to that you're seeing some good success as well as types of customers? Is it still the more the locals, the regionals that you're winning, those types of new wins?

Paul Manning: Well, I think for part one of your question, I think we've seen that transition from Ingredients to Flavors on a very broad base across the group. We've seen that progress in Beverage. We've seen that progress in Fragrances. We've seen it in a lot of our businesses.

Where we had probably the furthest to go on that way would have been our Savory business, which I think I've highlighted on some of these calls before. And so now we are seeing good progress within those businesses as well. But I think we've demonstrated that based on the customers that we're focused on and effectively the competitors we have chosen, we had demonstrated an ability to really execute on that strategy and provide that type of technology and application support to many of those companies that don't often receive that type of technology and application support.

So we've been very targeted in terms of our customers that we want to emphasize and to develop and to grow with. And as you think you can appreciate, that takes time and we've seen the fruits of many of those initiatives over the last couple of years. So I've got a lot of confidence that this program works.

It's a very big flavor market, and there's a lot of companies right now. And some would suggest that perhaps a lot of these big multinationals, maybe they're not launching as many products and so, therefore, you're seeing a lot of the growth is coming from these regional and national and local companies, which perhaps are historically doing a lot more launches then they would have ever in the past. So I think hitching our wagon to this group is a good thing to do, and I think that we've demonstrated that again on a fairly broad base around the world and across each of these business units.

Nevertheless, I want to see more. I think we can see more. I think getting past all the restructuring is a big part of that. And I think that having this broad base of customers has been very, very productive and very, very healthy for the business. If you look at Colors, yes, we attract the attention of all the big CPG companies around the world, and so you may ask, "Well, how are we still growing by 7 percent if those folks aren't growing by that much?"

Because we made a concerted effort a number of years ago to expand that sales force and the technical force to go after, again, these regional, local and national customers in anticipation that there may be a slowdown in the big multinationals. And I think that is definitely bearing fruit today. That, along with our, I think our belief that natural colors was the market of the future and that it was necessary to invest in Cosmetics and a lot of the areas that we're showing success today with.

Michael J. Sison: Great. And then one quick question on -- your balance sheet remains in really good shape. Your organic story is going well. And so when you think about acquisitions and the M&A environment is, I guess, heated, but when you think about the opportunities out there, is your focus more on Color?

Is it more on Flavors? And then would you consider a bigger, more pronounced transaction if something comes up from some of these mega mergers in chemicals and such?

Paul Manning: Yes, I would certainly say we're open to a lot of different possibilities here. Obviously, Flavors in the context of the strategic change, the organizational stage, the restructuring, that would've been a tougher thing to try to buy and then integrate into the business. But I think that's clearing up and so certainly, there remains a possibility within the world of Flavors & Fragrances that there could be something that could fit nicely into our portfolio.

I would anticipate that would really be on the basis of a technology play, a smaller company that we would pursue. I think across Color, you could really consider that in a lot of the different segments, perhaps less so on Food Colors than you could see on, say, Pharma or Inks or Cosmetics or another one of those divisions. But M&A moves in cycles. In my opinion, we are, perhaps, at the peak of that cycle. And as with all cycles, they reach a trough.

And when a trough is reached, there are deals to be made and there are assets to be picked up at discounted prices. I think what I had seen, and in my opinion, there is a distinct possibility that a company could very much overpay for an acquisition. And you look at our balance sheet, we're 2.4 debt-to-EBITDA. Well, if you overpay and that thing doesn't work out, your 2.4 may become 5.4 before you know it, and now you've got a different problem.

So we're being very thoughtful and very disciplined about this. It's got to fit within the strategy that we have. I would not anticipate making a market share-related acquisition because I think, in our case, we would wind up overpaying for something like that. And so I think to some degree, it's a matter of when is the right time and do you have something that fits in?

And that something could be, as I think I hopefully have expressed here, could have been -- could really fit into any one of our businesses very nicely. But Food Color is probably the least -- the lowest of the probability on that scale.

Operator: And our next question comes from the line of Brett Hundley from Vertical Group.

Brett Hundley: Paul, I wanted to continue on that conversation regarding M&A and the balance sheet. Just because you guys have improved your cash conversion, you are continuing to make good on the broader restructuring that's been put in place and that's helping to drive margin.

It seems like you're getting around some culling work in Flavors & Fragrances, and you continue to perform well in Colors. And so clearly, as a lot of us put together our financial models not only for this year but in coming years, we continue to see that leverage ratio work down towards 2x, maybe even below at some point. And so I wanted to -- my question, I wanted to revisit kind of what you view as an ideal leverage or net leverage ratio.

And if M&A -- if we are at near a peak now and there are expectations from you guys that eventually that may come off and you want to be more of a value buyer, what would you tell to shareholders today that see that leverage ratio working down, see cash flow moving higher as it relates to capital allocation and cash return?

Paul Manning: Yes, I would say this, we have been very much -- number one, I think in any year that I could either see now or even into the future, I think CapEx will always be number one for us. There's no purer form of investment. There's no higher return to be gained, in my opinion, for this business than making efforts on investing in ROI projects around the company.

Despite, perhaps, some thoughts out there in the market that companies are not investing in ROI projects, I think that's totally false for us. Any ROI project that I can get my hands on, I'd love to and I'd love to make those investments, assuming we can -- we had a good business plan. So I think that's going to continue to be number one, and that's really, for the long term, benefit of the company financially and operationally.

I think that makes a lot of sense. Number two for us has really historically been our dividend, and we pay that out on a fairly disciplined scale, a payout ratio of 35 percent to 40 percent. I'd like to keep that in the cards, moving forward. I think that's been a successful program and it's been an efficient way to return to many of our shareholders. But I think the other piece then is, all right, is it debt? Is it acquisitions? Or is it -- well, debt or acquisitions, essentially. So I think for us -- sorry, repurchasing.

Where we've been is I felt that for many years, the stock was undervalued so we started buying back at $40. And I suppose at the end of the day, we might have been on to something there. We've done pretty well with that program. Before that, we had paid down our debt as a company to very -- I think we got to about 1.2 debt to EBITDA, and we did that really ahead of the financial collapse of '08 and '09. And so I think what we've been reasonably good or -- at making these types of predictions about the market and where we think it's going.

And so therefore, as I go back to my M&A comments, I would predict that there's going to be an opportunity, maybe in not-too-distant future where the M&A world does move out of its peak pricing and doomed into more of a trough situation, and that could be where you see us not buy any stock at all, lever up to an even higher than 2.5 ratio in the interest of capturing value in terms of M&A.

So I think we, as a company right now, at 2.5 or 2.4 leverage, we've been kind of hovering in that area. That's probably about right because it gives us the flexibility to lever up for an acquisition, which may come in the near future, but it certainly allows us to continue on course with our repurchasing program beyond meeting our CapEx and dividend needs of the company.

So that's kind of where I am at 100,000 feet. If I'm wrong and the M&A stays at a peak for the next five years, I suppose that would be a historical anomaly big time; in which case, you may see us continuing to buy back more stock. So does that kind of get at where you're going here?

Brett Hundley: It does, and I appreciate the color. So if I can transition over to your Flavors & Fragrances segment, we've talked previously about, again, how a lot of restructuring was concentrated there and you've talked historically about the step change that you want to see from any return on sales perspective -- standpoint in your Flavors & Fragrances segment, kind of akin to what you did in your Colors group.

And you've kind of stepped that out all the way up to 2020, I believe. And I feel like a lot of us have good visibility and a good understanding of how you can improve margin over the near term, given some of the color that you've given.

But I wanted to ask you if you could walk us through visibility and confidence that you have on these continued margin gains in Flavors & Fragrances, maybe out in 2019 and 2020 and really try and get us comfortable with your ability to deliver on potentially bringing that margin up towards, whatever you said, 20 percent or so out towards 2020.

Paul Manning: Yes, so two things on that. I think, number one, what would give people confidence? Well, we did this in Color, we did this in Flavor. And in fact, we've even exceeded those expectations in Color. I think on Flavor, as we move towards our expected 20 percent operating profit margin, I think we've demonstrated, and certainly in the last year, an accelerated version of that.

We've demonstrated our ability to grow this margin through the improvements that we have decided before. Product mix, taking out costs, culling; these three factors, I think, have come together to bring us where we are today. So then the natural question then that comes, all right, with culling essentially over at the end of this year, a little bit of bleed into 2018, that leads effectively still improvements in product mix and taking out additional costs.

As I look at the Flavor Group, I see both throughout the entire world. There's definitely more opportunities to take out cost from that business. There's definitely more opportunities to improve our mix in that business. And I think the mix is always -- that's the one that people would -- I mean, okay, yes, you can take out costs but really, can you be successful selling the better mix of these products.

And there, I would have to point to the many businesses in the Flavor Group right now which operate at that level of profitability; that at or near 20 percent operating profit margin. To me, that's a very strong indication that we have a path. We've achieved that path for many businesses. And that -- so for the remaining businesses, we certainly have a benchmark internally, but I think we've had a set of actions.

And in particular, for those businesses that have not experienced a restructuring hit, where we have demonstrated an ability to really improve that mix very, very strongly and find that part of the market, the underserved part of the market that's less competitive than, say, dealing with a massive multinational where you may have three or four key competitors. I think that's a huge part of the story. And I think that is what we've said really for a few years now, those themes and that execution. And I think we continue to stay on track with that.

And we continue to stay on track with that because it's working. And so I would suggest that as we move into 2018 and you see an improvement in the top line for Flavors, that's going to have a very nice impact. I think you're going to continue to see more costs coming out.

Restructuring is part of it, but as you then optimize that plant further, there's always more opportunities to take out some of those costs. There are certainly opportunities within raw material and transportation costs that can be addressed as well. And so these get us to a path, very strong path of the 20 percent, I think.

Brett Hundley: That's really helpful. Just one more for me, if I can. I just want to be crystal clear on what you called out in Asia on order timing and mix. So it sounds to me like you're expecting both to improve. I would imagine that the order timing variable should very much overcompensate for Q1 in coming quarters.

The mix, I wanted to see if I could get a little bit more color on because I would imagine, if there was a mix impact that was maybe somewhat unexpected in Q1 that, that might bleed into the remainder of the year.

So net-net, I could understand things normalizing in the remainder of the year, but starting off on a little bit of a hole in Q1. So I was wondering if you could just talk to both of those issues and your visibility for those normalizing in the remainder of the year.

Paul Manning: Yes, so I would say this, I think, certainly, there -- I would anticipate Asia Pacific, as I recommitted to in the opening monologue, achieving the top line growth of high single-digits that we talked about at the beginning of the year. We think that is certainly still achievable.

Yes, there's certainly -- there's a little bit of a timing piece here that -- in Q1, we were only at about mid-single-digit top line growth. So I think with respect to the timing, yes, I think you're going to see an uptick throughout the remainder of the year that would then net us out to where we expected to be for Asia Pacific overall.

So I feel very good that we have good continued growth prospects in Asia Pacific. I feel very good committing to those numbers again to you and to the rest of the investors because I do see a lot of opportunities in Asia Pacific, and we've made a lot of investments there to get there. But this is really kind of a phasing issue, which then -- not unlike a different phasing issue we have in Flavors. So let me just kind of transition over to Flavors because this fit with your earlier question and then Mike Sison's earlier questions about Flavors.

And so Francesco, I know you're on the line too, so you'll certainly want to hear this piece. But as we look at Q2 and as we look specifically at guidance and you look specifically at Flavors, one thing I just want to kind of reiterate or certainly make a little bit more clear. I think as you all recall, last year Q2 2016, we had the sale of the onetime import rights, and that was a $0.04 benefit, which went entirely to the Flavor Group. So to the extent you have that in your Q2 2017 baseline, that would suggest that your Q2 consensus is too high.

And so this gets into a little bit of phasing as you look at Flavors and as you look at how this will come together to deliver what I told you we would get to for the year. We have effectively a 4 cents difference here in terms of where we see our Q2 and where you have our Q2 from a consensus standpoint. I think the difference is certainly that $0.04 related to that onetime sale.

And I think I've probably been a little bit confusing, so you can blame me on this. I could have been a lot more clear about that one. I think that $0.04

moves from Q2, mostly to Q3, but also to Q4. But obviously, we're maintaining our guidance for the year. So I think this is really just a difference in phasing.

Again, you can blame me. It's probably my fault. I have not been as clear as I could be. But as you look at that for Q2, then at $0.87, we are up almost 12 percent on EPS. So just -- if you could take a look at that and if there's any questions, I'm happy to take those now or later in this call.

But the other thing, if I could get -- draw this to your attention, that all came from Flavor. So when Q2 results come out for Flavor, you will see a decline year-over-year in operating profit because we will not have that onetime sale again in Q2 of this year. That doesn't mean Flavors is not doing well.

That would mean Flavors is still very much on track for the year and for the quarter. But I just wanted to make sure I was very clear because, again, I don't think I was as clear as I could have been in the last call or even referencing this last year Q2.

Brett Hundley: I appreciate that, Paul. We'll blame you because we sell-siders are infallible, of course.

Paul Manning: I agree 100 percent.

Operator: And once again if you would like to ask a question, please signal us by pressing star one. And our next question comes from Francesco Pellegrino from Sidoti.

Francesco Pellegrino: So you did know I was on the call, and I actually want to continue the conversation about your maintained outlook for the year. And I guess the additional transparency into your guidance and what to look for, for Q2 was relatively helpful. But just to piggyback off of Brett's last question about the order timing and product mix, which should really benefit the second quarter.

I was just operating under the assumption that the first half of 2017, you were going to have some greater FX currency headwind. And just reading through the release, it really didn't seem that way. I would think in the second half, that's where you start to face the year-over-year issues with the stronger U.S. dollar.

But maybe if you could just touch on a little bit of maybe whether it was product mix, higher -- a higher product mix of higher-margin products in certain geographical areas or if it was just greater business in certain geographical areas of -- regardless of whatever the product mix was.

Paul Manning: Yes. All right, let me answer the first part. I think it's specific to FX and this can be helpful. We estimated on the last call in February that we would have a roughly 10 percent EPS impact just related to FX.

Stephen J. Rolfs: Ten cents.

Paul Manning: Ten cents right. And so as we look at that now a couple of months -- two months later, if we were to look at the entire year, we would say it's probably closer to about five cents now. So what that would then spell is that you could see us potentially at the higher end of our EPS range.

But I would say this, we've seen these types of movements in the past, and so I want to continue to confirm our range because we don't know where the FX may go in even another month or two from now. In my opinion, we've been very, very close on our estimates, at least in the last three years on this one. So 10 cents estimate in February.

We're probably at about 5 cents today, but I am not 100 percent confident at what that rate will be for the year. So I'd like to kind of keep the range there.

Francesco Pellegrino: If I could just interrupt you for one second. And I think we might be getting at the same thing. All-in-all, this was a really strong quarter, considering the FX headwind. Just to even report revenue flat year-over-year and then to just report the EPS growth that you did.

And then to see that the balance of the year, 50 percent of the $0.10 FX is just going to be falling in the next three quarters, all else equal and if your assumptions are correct going forward. I just want to reiterate like, all-in-all, a flat top line. This was a very strong quarter outside of some of the FX headwinds that you faced.

Paul Manning: Yes, I think I was very pleased with many, if not most, of the businesses and the top line that they were able to achieve in the local currency measurements.

Francesco Pellegrino: Okay. And I guess just one of the other things that I want to hit on, and it's not something that I usually touch upon a lot, is in order for the balance sheet -- and I wasn't sure if maybe this was due to the asset divestiture, but whether it's like your trade accounts receivable or it's some of your accounts payable, are you having like stricter credit terms with customers?

Because your collection turnover period is improving significantly and I just wasn't sure if there was anything behind that.

Paul Manning: Yes, let me -- Steve loves this kind of stuff. Let me turn this one over to him for a minute.

Stephen J. Rolfs: No, it's a good catch, Francesco. So there are two things going on in the -- on the receivable line. You'll recall, we did that accounts receivable securitization. I think right at the beginning of the fourth quarter last year. So that removed about $40 million of receivables.

And so when you look at the comparisons for March of this year to March of last year, you do see them down, and a lot of it is that securitization that we did. But I would also point out, you're right, we were better in collections and so our days -- even ex that item, our days improved a little bit.

But that's the main difference you see on the balance sheet. Another thing you'll see in some of the other accounts, you'll see some of those came down and some of those are those assets that were held for sale that Paul talked about, the savory ingredient facility and the Natural Ingredients in Europe. That removed about $30 million from the balance sheet as well.

Francesco Pellegrino: Okay. That makes sense for the improvement in trade accounts receivable. And I'm just, obviously, trying to think about how this is going to trickle into cash flow. But then, why did your trade accounts payable jump so significantly if we have relatively flat inventory?

Stephen J. Rolfs: Yes, so on the payables, I'll just turn to the balance sheet that you're looking at. The main thing going on there is as some of our capital projects related to the restructuring wind down, we're essentially paying off some of those payables and not replenishing because the capital projects are finishing and not being replaced by others. And then there are other accruals related to the restructuring that result in some of the liabilities coming down. That's -- and again, as those activities wind down and that's interesting there.

Paul Manning: Yes, and on kind of an annual basis, Francesco, we had really good cash flow and free cash flow -- well, free cash flow and cash flow from operations in 2016. I would expect to have a very good year in 2017 as well on that.

So whether we're talking about receivables and payables and inventory and now, obviously, an improvement in operating profit, I think each of these are going to spell very nice improvement cash flow from ops. And then as CapEx continues to trend in the sort of the $60 million to a $70 million, as you'll know historically, that's a little bit lower than we've been, we would pick up some benefit on free cash flow to the business.

Francesco Pellegrino: Right. I just wasn't sure since we were looking at the balance sheet and at the moment in time if this was going to be something that was going to maybe be offset in the second quarter. But you see more like sustainable efficiencies going forward, so...

Stephen J. Rolfs: I think that's right, yes.

Francesco Pellegrino: And I had noticed it in the fourth quarter as well. So just to see the sequential benefit continue, I guess, this is something sustainable going forward. Okay. That was it for me.

Operator: And we have reached the end of the question-and-answer session. Please contact the company with any additional questions. At this time, I will turn the conference call back over to the company for closing remarks.

Stephen J. Rolfs: Okay. That will conclude our call today. Thank you all very much for your interest. I hope we were able to address all your questions. If not, as the moderator said, please feel free to give us a call after the call concludes. Thank you.

Paul Manning: Okay. Thank you.

Operator: And that does conclude today's conference call. You may now disconnect.

END